

VZCZCXYZ0002  
PP RUEHWEB

DE RUEHKB #1830/01 3491456  
ZNY CCCCC ZZH  
P 151456Z DEC 06  
FM AMEMBASSY BAKU  
TO RUEHC/SECSTATE WASHDC PRIORITY 1996  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUCNMEM/EU MEMBER STATES PRIORITY  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUEKDIA/DIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L BAKU 001830

SIPDIS

SIPDIS

CORRECTED COPY

E.O. 12958: DECL: 12/12/2016  
TAGS: [ENRG](#) [PGOV](#) [PREL](#) [AJ](#) [GA](#) [TU](#)  
SUBJECT: CORRECTION: BP AZERBAIJAN DODGES BULLET

Classified By: Econ Officer Alan Eyre, Reasons 1.4 (b,d)

11. (C) SUMMARY: On December 12, BP Azerbaijan President Bill Schrader told Charge that BP would be willing to give SOCAR more associated ACG gas over the whole of 2007 if it were sufficiently compensated, and that his sense of the December 8 Tbilisi Energy Minister meetings was that Turkey was willing to surrender two-thirds of its 2007 Shah Deniz gas, which it was and would be unable to receive in winter 2007, instead of getting caught in a take or pay, situation. Schrader said he felt the Shah Deniz partners would have to accept any probable worst case scenario, for compensating Turkey for re-distributing this 2007 gas. Schrader said he felt BP "dodged a bullet" by coming up with its proposal to give increased amounts of associated ACG gas to Azerbaijan to help it through the 2007 winter. Schrader also told Charge that Presidential Energy Advisor Ali Asadov had that day cancelled the "First Gas" ceremony for the following week that one day previously he had ordered BP to arrange. END SUMMARY.

On Again, Off Again 'First Gas'

-----

12. (C) In a December 12 meeting with the Charge, UK Ambassador, BP External Affairs Director Clare Bebbington and BP Azerbaijan Commercial Vice-President Dr. Phil Home, BP Azerbaijan President Bill Schrader said that Presidential Energy Advisor Ali Asadov had that day cancelled the "First Gas" ceremony that he had yesterday instructed BP to prepare for next week. Schrader said that Asadov cited the reason as the President being "too busy next week." Schrader speculated that since the Georgian President originally suggested the idea, that Azerbaijan had asked BP to conduct the ceremony on short notice in the hopes that BP would prove unable to do so, and so Azerbaijan could go back to Georgia with the news that BP could not implement the request. But when BP dutifully said it would put a ceremony together, the GOAJ was forced to go ahead and turn off the ceremony, as it did not want to needlessly anger Russia. Schrader said that a "First Gas" ceremony would probably occur in mid-January 12007.

BP: 'Everything is Currency'

-----

13. (C) Speaking of his December 9 meeting with Socar President Rovnaq Abdullayev, Schrader said that Socar was still insisting on receiving additional amounts of free associated ACG gas past winter 2007, despite BP's analysis that ACG additional volumes may no longer be required after the first quarter. Schrader said Socar was linking this

issue to BP's ability to develop ACG deep gas. Saying that "everything is currency," Schrader said that BP had the numbers as to how much income the AIOC partners would lose based on increased associated ACG gas delivered to Socar, and that if Socar were willing to "keep the partners whole," then he would have no problem accommodating Socar's request for additional associated ACG gas for all of 2007. He said that BP would start negotiating with Socar on this issue starting in January 2007, when "everything would be on the table," to include ACG Deep Gas and PSA extension.

14. (C) Speaking of his December 9 meeting with Presidential Energy Advisor Ali Asadov, he said that Asadov, as well as Socar's Abdullayev, both now understand and accept the fact that Azerbaijan will face a gas shortage in the first quarter of 2007 regardless of the additional 2007 Shah Deniz gas received from Turkey and the additional ACG associated gas received from AIOC. Schrader said both Abdullayev and Asadov seem "ok with that." Reviewing a presentation on "Analysis of Supply to Demand Shortfall in Azerbaijan, Post Shah Deniz Redistribution (see Appendix), Schrader said that for the first half of January 2007, before the second Shah Deniz well was due to begin production, depending on various scenarios Azerbaijan would experience a 4.7 million cubic meter per day (mcm/d) shortage, with Azerbaijan and Georgia together facing a 8.4 to 11.2 mcm/d shortage in this time (note: Schrader

said that Socar preferred to work in mcm/d, vice standard cubic feet per day - scf/d. He said approximately 35 times mcm/d yields scf/d).

Tbilisi Summit  
-----

15. (C) Concerning the December 8 Tbilisi Energy Ministers' trilateral meeting, Schrader said he thought that because Turkey was not and would not be ready to receive Shah Deniz gas in time for the 2007 winter and was therefore willing to 'redistribute' two-thirds of its 2007 Shah Deniz gas, rather than being caught in a take or pay, situation. He pointed out that the price for the gas Turkey was re-distributing would be USD 120 per thousand cubic meters (mcm) "regardless of who gets it," and that Turkey would have one year to buy at USD 120 whatever allocated Shah Deniz gas they don't redistribute. However, ultimately he felt that the AIOC partners would have to accept any probable worst case scenario, re compensating Turkey for re-distributing its 2007 gas, even if it meant re-selling to Turkey the same amounts of gas, at the same low price, it agreed to redistribute to Azerbaijan and Georgia in 2007. Overall, he said he had a much better feeling about events than he did a week ago, when it seemed as if BP was "being set up for a trip to the woodshed" by Azerbaijan. By coming up with a program to share increased amounts of ACG associated gas with Azerbaijan in order to help them with their winter gas woes, Schrader said "I think we dodged a bullet."

-----  
APPENDIX  
-----

The following are the main points extracted from a handout given to Charge by BP Azerbaijan President Bill Schrader on December 12:

BP "Analysis of Supply to Demand Shortfall in Azerbaijan Post-Shah Deniz Redirection"

1. Gas Balance 2007, mcm/d (shortage)/excess:

Note:

- Assumes 5.66 mcm/d maximum individual well rate from Shah Deniz
- Well start-up schedule: SDA01: 13 Dec 2006; SDA02: 18 Jan 2007; SDA03 1 Mar 2007

1A. January 1-17 (i.e. after First, before Second Shah Deniz

Well Begins Production):

Base Operating Efficiency (50 percent): AZ (7.5); AZ plus GA (11.2)  
Upside Operations Efficiency (80 percent): AZ (5.8); AZ plus GA (9.5)  
Installed Production Capacity (100 percent): AZ (4.7) AZ plus GA (8.4)

B. 18 January - 28 February (after second, before Third Shah Deniz Well):

Base Operating Efficiency (50 percent): AZ: (4.7); AZ plus GA: (8.4)  
Upside Operations Efficiency (80 percent): AZ: (1.3); AZ plus GA: (5.0)  
Installed Production Capacity (100 percent): AZ: 1.0; AZ plus GA: (2.7)

C. 1-31 March (after start of Third Shah Deniz Well):

Base Operating Efficiency (50 percent): AZ: (1.9); AZ plus GA: (5.1)  
Upside Operations Efficiency (80 percent): AZ: 3.2; AZ plus GA: (0.0)  
Installed Production Capacity (100 percent): AZ: 6.6; AZ plus GA: 3.1

II. Supply Sources 2007 (daily volumes in mcm/d; total annual in bcm)

SOCAR: 12.3 mcm/d; 4.5 bcm  
ACG, total: 8.2 mcm/d; 3.0 bcm  
- ACG base: 4.0 mcm/d; 1.4 bcm  
- ACG additional: 4.3 mcm/d; 1.6 bcm  
Shah Deniz, total: 10.4 mcm/d; 3.8 bcm  
- Shah Deniz base: 6.8 mcm/d; 2.5 bcm  
- Shah Deniz additional: 3.6 mcm/d; 1.3 bcm  
TOTAL: 30.9 mcm/d; 11.3 bcm

- The above assumes 10.4 mcm/d requirement from Shahd Deniz (3.8 bcma) - post redirection  
- Georgia assumed to be 3 mcm/d (1.1 bcma)  
- Current Georgia contract is 1 mcm/d (max) equal to 0.25 bcma  
DERSE